

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-03 H-02 INR-07 L-02

NSAE-00 NSC-05 PA-02 RSC-01 PRS-01 SP-02 SS-15

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R 041541Z NOV 74

FM AMEMBASSY VIENNA

TO SECSTATE WASHDC 4082

INFO AMEMBASSY BERN BY POUCH

ZNE/AMEMBASSY BONN BY POUCH

ZNE/AMEMBASSY ROME BY POUCH

USMISSION EC BRUSSELS BY POUCH

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UNCLAS VIENNA 9316

DEPT PASS TREASURY AND FRB

E.O. 11652: N/A

TAGS: EFIN AU

SUBJECT: FINANCE MINISTER ANDROSCH PRESENTS RECORD BUDGET TO
PARLIAMENT

SUMMARY

FINANCE MINISTER ANDROSCH, WHO IS EXPECTED TO ACCOMPANY CHANCELLOR KREISKY ON OFFICIAL VISIT TO WASHINGTON NOVEMBER 12, HAS PRESENTED AUSTRIAN BUDGET FOR 1975 TO PARLIAMENT. THIS WILL BE LAST BUDGET FOR CURRENT LEGISLATIVE PERIOD, AS NEW PARLIAMENTARY ELECTIONS MUST BE HELD NOT LATER THAN OCTOBER 1975. WITH CONTEMPLATED OUTLAYS OF ALMOST \$10 BILLION AND A DEFICIT APPROACHING THE \$1 BILLION MARK, THE 1975 BUDGET SETS NEW RECORDS AND HAD BROUGHT PREDICTABLE ATTACKS FROM OPPOSITION PARTIES. END SUMMARY

1. BUDGET PROVIDES FOR TOTAL EXPENDITURES OF AS 184.4 BILLION

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(\$9.7 BILLION), 16 PERCENT ABOVE 1974 PLANNED LEVELS AND 10 PERCENT

MORE THAN ESTIMATED ACTUAL OUTLAYS IN CURRENT YEAR. (THIS COMPARES WITH ESTIMATED GROWTH RATES OF GNP IN 1975 OF 13.5 PERCENT AT CURRENT MARKET PRICES AND OF 4 PERCENT AT CONSTANT PRICES, AFTER ESTIMATED 5 PERCENT REAL GROWTH IN 1974.) IN ADDITION, CONTINGENT BUDGET OF AS 6.7 BILLION (\$353 MILLION) TO BE FINANCED FROM BORROWING WILL PERMIT BUDGETARY STIMULUS TO ECONOMY IF REQUIRED IN 1975. REVENUES ARE ESTIMATED AT AS 168.0 BILLION (\$8.9 BILLION), 13 PERCENT MORE THAN BUDGETED FOR 1974 AND 7.3 PERCENT ABOVE ESTIMATED ACTUAL REVENUES. THE SMALLER RISE OF REVENUES THAN OF EXPENDITURES PRIMARILY ATTRIBUTABLE TO RETARDING EFFECTS OF INCOME TAX REDUCTIONS OF 1973 AND 1975 (ESTIMATED AT AS 11 BILLION), AND ESTIMATED DECLINES IN RECEIPTS FROM PETROLEUM TAXES (AS 1.4 BILLION) AND CUSTOMS DUTIES (AS 0.5 BILLION).

2. PRIORITY IN NEW BUDGET ACCORDED TO EDUCATION AND SCIENCE; SOCIAL WELFARE; PROMOTION OF TOURISM; AND MOUNTAIN FARMERS. SHIFT OF EMPHASIS FROM ROAD TO RAIL TRAFFIC IS REFLECTED BY DECLINE IN APPROPRIATIONS FOR ROAD BUILDING, WHEREAS HIGHER FUNDS WILL BE DEVOTED TO RAILROAD INVESTMENTS. APPROPRIATIONS WERE ALSO INCREASED FOR LAW ENFORCEMENT AND DEFENSE. HOWEVER, DEFENSE BUDGET FOR 1975, ACCOUNTING FOR 3.8 PERCENT OF OVERALL VOLUME OF BUDGET EXPENDITURES AND 1.1 PERCENT OF TOTAL GNP IN 1975, REMAINS RELATIVELY UNCHANGED FROM LEVEL BUDGETED FOR 1974.

3. FORMAL DEFICIT PROJECTED AT AS 16.4 BILLION (\$868 MILLION) IS A WHOPPING 51 PERCENT HIGHER THAN DEFICIT BUDGETED FOR 1974, AND HIGHEST EVER IN AUSTRIAN POSTWAR HISTORY. EXCLUDING DEBT REDEMPTION AND OTHER TRANSFERS ABROAD, DEFICIT AFFECTING DOMESTIC DEMAND AMOUNTS TO AS 7 BILLION OR MORE THAN THREE TIMES THAT ESTIMATED FOR 1974. INCLUDING CONTINGENT BUDGET, FORMAL DEFICIT WOULD TEND TO REACH AS 23 BILLION (\$ 1.2 BILLION).

4. IN BUDGET MESSAGE, WHICH WAS LARGELY A RECITAL OF SOCIALIST GOVERNMENT ACHIEVEMENTS OF PAST FIVE YEARS, ANDROSCH TERMED HIS BUDGET A ECONOMY BUDGET AND CLAIMED THAT SINCE SOCIALISTS TOOK OVER GOVERNMENT IN 1970, FEDERAL FISCAL OPERATIONS HAVE BEEN CONSOLIDATED AND PLACED ON SOUNDER FOOTING. DEALING WITH WORLD-WIDE PROBLEM OF INFLATION AND EFFECTS ON AUSTRIA, ANDROSCH ASSERTED, THAT TWO THIRDS OF LOCAL PRICE UPTREND IS IMPORTED, ONE THIRD THEREOF TRACEABLE TO OIL PRICE FACTOR. HE STATED UNCLASSIFIED

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THAT INFLATION PROBLEM CAN BE SOLVED ONLY BY INTERNATIONAL COOPERATION.

ON THE AUSTRIAN NATIONAL LEVEL, HE DECLARED CONTINUATION OF STABILIZATION PROGRAM IS INDISPENSIBLE IN ORDER TO KEEP INFLATION RATE BELOW 10 PERCENT IN 1975 (PRESENT INFLATION RATE IS 10 PERCENT). AT THE SAME TIME, HOWEVER, HE MADE CLEAR THAT GOA UNDER NO CIRCUMSTANCES WILLING TO ENGAGE IN QUOTE STABILIZATION EXPERIMENTS WHICH WILL ENTAIL UNEMPLOYMENT,

AND SUBSEQUENTLY LEAD TO STAGFLATION AND SLUMPFLATION AS HAS BEEN DEMONSTRATED BY OTHER COUNTRIES UNQUOTE.

COMMENT

ANDROSCH'S BUDGET, COMING AT A TIME WHEN POLITICAL PARTIES ARE ALREADY CRANKING UP FOR NEW ELECTIONS THAT MUST BE HELD SOME-TIME WITHIN NEXT 12 MONTHS, HAS BROUGHT PREDICTABLE ATTACKS FROM OPPOSITION PARTIES AS IRRESPONSIBLE AND UNDULY BURDENSOME TO THE PRIVATE SECTOR. THE BUDGET MESSAGE MAKES CLEAR WHAT ANDROSCH AND CHANCELLOR KREISKY HAVE REPEATEDLY STRESSED IN RECENT MONTHS, THAT IS, THAT THE PRESENT SOCIALIST GOVERNMENT, WHILE IT WILL CONTINUE ITS RATHER MILD STABILIZATION PROGRAM, HAS NO INTENTION OF PURSUING AN ANTI-INFLATIONARY POLICY WHICH WOULD RESULT IN UNEMPLOYMENT. WHILE AUSTRIAN RATE OF INFLATION AT 10 PERCENT IS HIGH, IT IS LOWER THAN THAT OF MOST OF COUNTRY'S KEY TRADING PARTNERS. GOVERNMENT THEREFORE REGARDS IT AS TOLERABLE, AND IS IN NO MOOD TO RISK VOTERS DISAFFECTION BY MORE STRINGENT POLICIES.

NOTE: EXCHANGE RATE: AS 18.93 EQUALS US\$ 1.- (JANUARY-SEPTEMBER 1974 AVERAGE) HUMES

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